

**REPORT OF THE AUDIT OF THE  
FORMER OWSLEY COUNTY  
SHERIFF'S SETTLEMENT - 2001 TAXES**

**August 12, 2002**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Cale Turner, Owsley County Judge/Executive  
Honorable Paul Short, Former Owsley County Sheriff  
Honorable Kelly Shouse, Owsley County Sheriff  
Members of the Owsley County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the former Owsley County Sheriff's Settlement - 2001 Taxes as of August 12, 2002.

We engaged Ross & Company, PLLC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the former Owsley County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





**REPORT OF THE AUDIT OF THE  
FORMER OWSLEY COUNTY  
SHERIFF'S SETTLEMENT - 2001 TAXES**

**August 12, 2002**

**ROSS & COMPANY, PLLC  
Certified Public Accountants**

**800 Envoy Circle  
Louisville, KY 40299  
Telephone: (502) 499-9088  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
FORMER OWSLEY COUNTY  
SHERIFF'S SETTLEMENT - 2001 TAXES**

**August 12, 2002**

Ross & Company, PLLC has completed the audit of the former Sheriff's Settlement - 2001 Taxes for Owsley County Sheriff as of August 12, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The former Sheriff collected taxes of \$627,451 for the districts for 2001 taxes, retaining commissions of \$26,524 to operate the former Sheriff's office. The former Sheriff distributed taxes of \$592,619 to the districts for 2001 Taxes. Taxes of \$10,983 are due to the districts from the former Sheriff and refunds of \$2,675 are due to the former Sheriff from the taxing districts.

**Report Comments:**

- The Former Sheriff Should Settle Amount Owed and Collect Amounts Due Sheriff
- The Former Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Former Sheriff Should Pay Advertising Fees and Advertising Costs to the Fee Account and to the Fiscal Court, Respectively
- The Former Sheriff Should Maintain Sufficient Collateral to Protect Public Deposits
- The Former Sheriff Should Prepare All Tax Reports On A Timely Basis
- Receipts Were Not Deposited Intact Daily
- The Former Sheriff Should Not Have a Deficit in His Official Bank Account
- The Former Sheriff Should Implement Proper Accounting Procedures and Maintain Proper Accounting Records
- The Former Sheriff's Office Lacked Adequate Segregation of Duties

**Deposits:**

The former Sheriff's deposits were not insured and collateralized by bank securities or bonds.





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Members of the Owsley County Fiscal Court

Independent Auditor's Report

We have audited the former Owsley County Sheriff's Settlement - 2001 Taxes as of August 12, 2002. This tax settlement is the responsibility of the former Owsley County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Owsley County Sheriff's taxes charged, credited, and paid as of August 12, 2002, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 13, 2004, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Cale Turner, Owsley County Judge/Executive  
Honorable Paul Short, Former Owsley County Sheriff  
Honorable Kelly Shouse, Owsley County Sheriff  
Members of the Owsley County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Former Sheriff Should Settle Amount Owed and Collect Amounts Due Sheriff
- The Former Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Former Sheriff Should Pay Advertising Fees and Advertising Costs to the Fee Account and to the Fiscal Court, Respectively
- The Former Sheriff Should Maintain Sufficient Collateral to Protect Public Deposits
- The Sheriff Should Prepare All Tax Reports On A Timely Basis
- Receipts Were Not Deposited Intact Daily
- The Former Sheriff Should Not Have a Deficit in His Official Bank Account
- The Former Sheriff Should Implement Proper Accounting Procedures and Maintain Proper Accounting Records
- The Former Sheriff's Office Lacked Adequate Segregation of Duties

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive, flowing style.

Ross & Company, PLLC

Audit fieldwork completed -  
January 13, 2004

OWSLEY COUNTY  
PAUL SHORT, FORMER COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2001 TAXES

August 12, 2002

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 91,431	\$ 143,087	\$ 242,584	\$ 71,877
Tangible Personal Property	3,769	4,523	10,149	5,274
Intangible Personal Property				1,479
Fire Protection	1,967			
Increases Through Exonerations	91	128	243	72
Franchise Corporation	24,760	32,287	66,661	
Oil and Gas Property Taxes	310	434	822	243
Penalties	965	1,362	2,522	750
Adjusted to Sheriff's Receipt	(31)	(35)	(91)	(89)
Gross Chargeable to Sheriff	<u>\$ 123,262</u>	<u>\$ 181,786</u>	<u>\$ 322,890</u>	<u>\$ 79,606</u>
<u>Credits</u>				
Exonerations	\$ 2,138	\$ 3,099	\$ 5,668	\$ 1,679
Discounts	1,146	1,709	2,972	917
Delinquents:				
Real Estate	9,169	12,812	23,873	7,063
Tangible Personal Property	435	1,181	1,172	879
Intangible Personal Property				441
Uncollected Franchise	764	919	2,057	
Total Credits	<u>\$ 13,652</u>	<u>\$ 19,720</u>	<u>\$ 35,742</u>	<u>\$ 10,979</u>
Taxes Collected	\$ 109,610	\$ 162,066	\$ 287,148	\$ 68,627
Less: Commissions *	4,946	6,888	11,486	3,204
Taxes Due	\$ 104,664	\$ 155,178	\$ 275,662	\$ 65,423
Taxes Paid	100,279	150,478	288,217	65,143
Commissions Refunded from School			11,498	
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ 4,385</u>	<u>\$ 4,700</u>	<u>\$ (1,057)</u>	<u>\$ 280</u>

\* and \*\* See Page 4

The accompanying notes are an integral part of this financial statement.

OWSLEY COUNTY  
 PAUL SHORT, FORMER COUNTY SHERIFF  
 SHERIFF'S SETTLEMENT - 2001 TAXES  
 August 12, 2002  
 (Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	330,303
4% on	\$	287,148

\*\* Special Taxing Districts:

Library District	\$	(238)
Health District		985
Extension District		1,580
Soil Conservation District		(1,380)
City		<u>3,753</u>

Due Districts or (Refunds Due Sheriff)	\$	<u><u>4,700</u></u>
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The accompanying notes are an integral part of this financial statement.

OWSLEY COUNTY  
NOTES TO FINANCIAL STATEMENTS

August 12, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The former Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 10, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$188,624 of public funds uninsured and unsecured.

OWSLEY COUNTY  
NOTES TO FINANCIAL STATEMENT  
August 12, 2002  
(Continued)

Note 2. Deposits (Continued)

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at year-end or as of December 10, 2001.

	<u>Bank Balance</u>
FDIC Insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	33,976
Uncollateralized and uninsured	<u>188,624</u>
Total	<u><u>\$ 322,600</u></u>

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2001. Property taxes were billed to finance governmental services for the year ended June 30, 2002. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 30, 2001 through August 12, 2002.

Note 4. Interest Income

The former Owsley County Sheriff earned \$573 as interest income on 2001 taxes. As of January 13, 2004, the former Sheriff owes \$223 in interest to the school district and \$282 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The former Owsley County Sheriff collected \$4,046 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the former Sheriff's office. As of January 13, 2004, the former Sheriff owes \$4,046 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The former Sheriff did not pay any advertising fees to the fee account or advertising costs to the fiscal court. Due to inadequate or missing records we were unable to determine the amount of advertising fees and advertising costs collected.



OWSLEY COUNTY  
NOTES TO FINANCIAL STATEMENT  
August 12, 2002  
(Continued)

Note 7. Deficit Balance

Based on available records, there is a \$7,426 deficit in the former Sheriff's official tax account. This deficit results from undeposited receipts for tax year 2001. A Schedule of Excess of Liabilities Over Assets is included in this report as a supplemental schedule.

Note 8. Refunds Due to Franchise Corporation

One franchise bill was prepared incorrectly. The franchise corporation was charged a tangible tax amount for the Soil Conservation District, however the Soil Conservation District can only collect on real estate taxes.

The franchise corporation that is due a refund is Peoples Rural Telephone Coop. The total amount collected on the franchise tax bill was \$57,229. The correct amount that should have been collected is \$54,237. The amount collected for tangible taxes for the Soil Conservation District was \$2,992; therefore Peoples Rural Telephone Coop. is due a refund of \$2,992.

KRS 134.590 (5) states:

Upon proper authorization, the sheriff or collector shall refund the taxes from current tax collections held by the sheriff or collector. If there are no such funds, refunds shall be made by the finance officer of the district. The sheriff or collector shall receive credit for any refunds made by the sheriff or collector on the next collection report to the district.

The current Sheriff or the Soil Conservation District should make the refund. The total refund due on the tax settlement to the Sheriff from the Soil Conservation District is \$1,380; the total refund stated above is \$2,992 for a \$1,612 difference. The difference is the taxes paid to the Soil Conservation District by the former Sheriff and the commissions retained by the former Sheriff.

OWSLEY COUNTY  
PAUL SHORT, FORMER COUNTY SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

August 12, 2002

Assets

Cash in Bank (All Tax Accounts)	\$ 38,192
Deposits in Transit	97
Receivables:	
School	1,057
Library	238
Soil Conservation	1,380
	<hr/>
Total Assets	\$ 40,964

Liabilities

Paid Obligations-		
Outstanding Checks	\$ 12,592	
Other Taxing Districts-		
School	12,836	
Extension Service	578	
Library	2,277	
Tax Comissions Paid to Sheriff's Fee Account	468	
Owsley County Clerk	3,152	
	<hr/>	
Total Paid Obligations	\$ 31,903	
Unpaid Obligations-		
Other Taxing Districts-		
State	\$ 280	
County	4,385	
Health	985	
Extension Service	1,580	
City	3,753	
Tax Comissions Due Sheriff's Fee Account	953	
Interest Due Sheriff's Fee Account	282	
Interest Due School	223	
10% Add-On Fees Due Fee Account	4,046	
	<hr/>	
Total Unpaid Obligations		16,487
		<hr/>
Total Liabilities	\$ 48,390	
	<hr/>	
Total Fund Deficit as of August 12, 2002	\$ (7,426)	

## COMMENTS AND RECOMMENDATIONS



OWSLEY COUNTY  
PAUL SHORT, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

As of August 12, 2002

STATE LAWS AND REGULATIONS:

1.) The Former Sheriff Should Settle Amount Owed and Collect Amounts Due Former Sheriff

The proper distribution of tax money collected by the former Sheriff requires the collection of receivables (including overpayments to some taxing districts) and the payment of these funds to the appropriate taxing districts. The following net collections and net payable should be made:

Money Due From Others:

School	\$ 834
Library	238
Soil	<u>1,380</u>

Total Due From Others	<u>\$ 2,452</u>
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Money Due To Others:

State	\$ 280
County	4,385
Health	985
Extension	1,580
City	3,753
Fee Account	<u>5,281</u>

Total Due Others	<u>\$ 16,264</u>
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When the personal funds of \$7,426 are deposited in the official tax account, the above collections and distributions, along with the available tax bank account cash of \$6,386, will be sufficient to close the former Sheriff's tax account for tax year 2001. We recommend the former Sheriff collect the above \$2,452 of receivables and, combined with the personal funds of \$7,426 and the available cash of \$6,387, pay the listed \$16,264, of money owed.

*Former Sheriff's Response: None*

2.) The Former Sheriff Should Distribute Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly "that part of his investment earnings for the month which is attributable to the investment of school taxes." The former Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff's fee account. During 2000 tax collections, the former Sheriff earned interest of \$573 on his tax account. However, the former Sheriff did not pay the interest to the Board of Education or the fee account on a monthly basis. The former Sheriff only made one payment each to the Board of Education and the fee account. As of January 13, 2004, the former Sheriff owes the Board of Education \$223, and former Sheriff owes the fee account \$282.

OWSLEY COUNTY  
PAUL SHORT, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of August 12, 2002  
(Continued)

2.) The Former Sheriff Should Distribute Interest Earned On Tax Collections Monthly (Continued)

We recommend the former Sheriff comply with KRS 134.140(3)(b) and (d) by paying the amount of interest due to the school and fee account on a monthly basis.

*Former Sheriff's Response: None*

3.) The Former Sheriff Should Pay Advertising Fees and Advertising Costs To The Fee Account And to the Fiscal Court, Respectively

The former Sheriff did not pay any advertising fees to the fee account or advertising costs to the fiscal court. Due to inadequate or missing records we were unable to determine the amount of advertising fees and advertising costs collected. We recommend that the former Sheriff determine the amount of Advertising Fees and Advertising Costs collected and pay them accordingly.

*Former Sheriff's Response: None*

4.) The Former Sheriff Should Maintain Sufficient Collateral to Protect Public Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The former Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 10, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$188,624 of public funds uninsured and unsecured.

*Former Sheriff's Response: None*

5.) The Former Sheriff Should Prepare All Tax Reports On A Timely Basis

The former Sheriff did not prepare timely monthly reports for taxes collected. We remind the former Sheriff that KRS 134.300 requires reports and payments be made by the tenth of each month following the collection of taxes. This delay in payments allows the former Sheriff to receive the benefit of the interest earned on these funds rather than the taxing districts. We recommend the former Sheriff prepare all tax reports and submit all money due each district on a timely basis.

*Former Sheriff's Response: None*

OWSLEY COUNTY  
PAUL SHORT, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of August 12, 2002  
(Continued)

6.) Receipts Were Not Deposited Intact Daily

The former Sheriff did not deposit receipts intact daily. The State Local Finance Officer, under the authority of KRS 68.210, established minimum accounting requirements, which include depositing receipts intact on a daily basis and reconciling receipts to monthly bank statements. There were only two deposits made from February 20, 2002 to June 27, 2002. The financial records indicate that taxes were being collected during this period. We recommend that daily checkout sheets be prepared and that deposits be made on a daily basis.

*Former Sheriff's Response: None*

7.) The Former Sheriff Should Not Have a Deficit in His Official Bank Account

Based on available records, the former Sheriff had a deficit of \$7,426 in his official bank account as of August 12, 2002. This deficit results from undeposited receipts for tax year 2001. The former Sheriff should eliminate this deficit by depositing \$7,426 from personal funds to his official account. We recommend in the future that all tax collections be deposited intact daily to the official tax bank account.

*Former Sheriff's Response: None*

INTERNAL CONTROL - REPORTABLE CONDITIONS:

8.) The Former Sheriff Should Implement Proper Accounting Procedures and Maintain Proper Accounting Records

The former Sheriff did not follow proper accounting procedures or maintain proper accounting records as evidenced by the following deficiencies:

- A. Collections were not deposited on a timely basis.
- B. Receipts and disbursements ledgers were not maintained.
- C. Reports and distribution of moneys collected by the office were not prepared and disbursed in a timely manner.
- D. Records were not maintained for the collections of Advertising Fees and Advertising Cost.

We recommend the Sheriff implement proper accounting procedures and maintain proper accounting records.

*Former Sheriff's Response: None*

OWSLEY COUNTY  
PAUL SHORT, FORMER COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
As of August 12, 2002  
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES:

9.) The Former Sheriff's Office Lacked Adequate Segregation of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control, such as functions prescribed by statutes and regulations and by budgetary constraints. Due to limited staff, a proper segregation of duties may be impossible. We recommend that the Sheriff implement compensating controls to offset this internal control weakness. Examples of compensating controls are: 1) comparing source documents to the receipts and disbursements ledgers and to the monthly tax reports; 2) having deposits compared to the receipts ledger and bank statements; and 3) comparing checks to monthly tax reports. The lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness.

*Former Sheriff's Response: None*

PRIOR YEAR:

The Former Sheriff Should Settle Amount Owed and Collect Amounts Due Sheriff

*This comment is repeated in the current year.*

The Former Sheriff Should Distribute Interest Earned On Tax Collections Monthly

*This comment is repeated in the current year.*

The Former Sheriff Should Pay Advertising Fees to the Fee Account

*This comment is repeated in the current year.*

The Former Sheriff Should Maintain Sufficient Collateral to Protect Public Deposits

*This comment is repeated in the current year.*

Lacks Adequate Segregation of Duties

*This comment is repeated in the current year.*



REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



**ROSS & COMPANY, PLLC**  
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The Honorable Cale Turner, Owsley County Judge/Executive  
The Honorable Paul Short, Former Owsley County Sheriff  
The Honorable Kelly Shouse, Owsley County Sheriff  
Members of the Owsley County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Owsley County Sheriff's Settlement - 2001 Taxes as of August 12, 2002, and have issued our report thereon dated January 13, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Owsley County Sheriff's Settlement -2001 Taxes as of August 12, 2002 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Former Sheriff Should Settle Amount Owed and Collect Amounts Due Sheriff
- The Former Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Former Sheriff Should Pay Advertising Fees and Advertising Costs to the Fee Account and to the Fiscal Court, Respectively
- The Former Sheriff Should Maintain Sufficient Collateral to Protect Public Deposits
- The Former Sheriff Should Prepare All Tax Reports On A Timely Basis
- Receipts Were Not Deposited Intact Daily
- The Former Sheriff Should Not Have a Deficit in His Official Bank Account

Report On Compliance And On Internal Control  
Over Financial Reporting Based On an Audit Of The Financial  
Statement Performed In accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Owsley County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- The Former Sheriff Should Implement Proper Accounting Procedures and Maintain Proper Accounting Records.
- Lacks Adequate Segregation of Duties.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive style.

Ross & Company, PLLC

Audit fieldwork completed -  
January 13, 2004

